

Exhibit 1

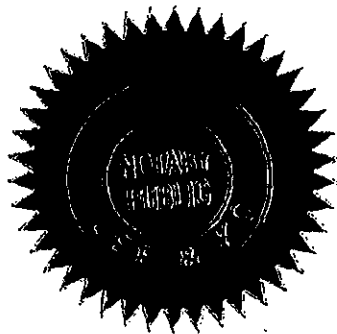
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[별지 제41호서식]

☎ 2191-3100

Registered No. 2011 - 166

NOTARIAL CERTIFICATE



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광장

PETITION FOR COMMENCEMENT OF REHABILITATION

Petitioner and Debtor

Korea Line Corporation



January 25, 2011

Petitioner's and Debtor's

Agents

Lee & Ko

To Seoul Central District Court

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PETITION FOR COMMENCEMENT OF REHABILITATION PROCEEDINGS

Petitioner and Debtor

Korea Line Corporation

145-9, Korea Line Corporation Bldg.
Samsung-dong, Kangnam-ku, Seoul

Representative Directors

Jin Bang Lee, Jae Min
Park

Agents for Petitioner

Lee & Ko

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Petition

We hereby petition for commencement of rehabilitation proceedings in respect to Debtor.

Cause for Petition

- I. Summary of Company
1. Business Purpose and Location

Petitioner and Debtor, Korea Line Corporation (hereinafter, the "Debtor"), is a *chusik-hoesa* whose purpose is to engage in shipping business, maritime agency business, port logistics business, real estate sale and leasing business, export-import business and other businesses relating to the foregoing, having its principal office at 145-9, KLC Bldg., Samsung-dong, Kangnam-ku, Seoul [Exhibit 1 Commercial Registry Extracts, Exhibit 2 Articles of Incorporation]. Debtor is a company listed as a publicly-traded company on the Korea Exchange.¹

2. History of Debtor

Summary of Debtor's history is as follows [Exhibit 3 Company Introduction Materials, Exhibit 4 Quarterly Financial Report (#44)]

- 1968.12. Company established
- 1969. Acquired license for maritime transport business
- 1970. Opened Busan office
- 1976. Long-term contract of affreightment for very large crude carrier with
POSCO
First domestic company to engage in special cargo ship business
- 1979. Merged with (absorbed) Hanil Shipping
- 1982. Opened Pohang office
- 1984. Merged with (absorbed) Korea Marine, Yukong, acquired 30%
equity in Bumjoo Shipping
- 1986. Opened Kwangyang office
- 1992. Public offering of shares
- 1994. 2 dedicated coal vessels for Korea Gas Corp.
- 1996. Designated as shipmanager for Korea Gas Corp. LNG10 vessel
- 1997. Designated as shipmanager for Korea Gas Corp. LNG17 vessel
- 2004. Procured bid for 18 year COA with Korea Southern Power Co., Ltd.
- 2005. Awarded Republic of Korea's Best Corporation
- 2006.6. Opened Shanghai office
- 2006.9. Est. Singapore subsidiary (Korea Line (Singapore) Pte., Ltd.)
- 2007. Awarded tops for Export Day with US\$900 million
- 2008.6. Entered into long-term contract of affreightment with Korea South-
East Power Co., Ltd. for coal bituminous coal used in power (275,987 billion Won
contract amount)
- 2008.11. Entered into long-term contract of affreightment with Glovis Co., Ltd.
for iron manufacturing raw materials (378,538 billion Won contract amount)
- 2009.4 Entered into sale-leaseback contracts for 5 vessels
- 2009. Awarded Best Korean Corporation Award (Freight container
category)
- 2010. Purchased 2 very large crude carriers (VLCC), 3 capesize bulkers,
5 supramax bulkers

¹ cf. Financial Supervisory Service electronic publication system's (<http://www.dart.fss.or.kr>) company overview.

3. Details of Head Office, Branch Office, Office and Warehouses

(a) Head Office

145-9, Korea Line Corporation Bldg.
Samsung-dong, Kangnam-ku, Seoul

(b) Offices

(1) Pohang Office

Address: 671-4 Marine Bldg. 4th Fl, Sangdo-dong, Nam-ku, Pohang City

(2) Kwangyang Office

Address: 1318-3 Marine Bldg. 4th Fl, Jung-dong, Kwangyang City

(3) Shanghai Office

Address: Room 1005 Unit B, Far East International Plaza No. 317
Xian Xia Road, Shanghai 200051, China

[Exhibit 1 Commercial Registry Extracts, Exhibit 3 Company Introduction Materials,
Exhibit 5 Business Registration Certificate]

(c) No branch offices and warehouses

4. Paid-in Capital and Shareholding Details

(a) Authorized capital, paid-in capital, etc.

Debtor's has 60,000,000 total issued and outstanding shares, and as of date of this petition, 16,423,122 common shares (5,000 Won per share) have been issued, paid-in capital of the company is 82,115,610,000 Won [Exhibit 1 Commercial Registry Extracts].

(b) Convertible Bonds, Warrants and Exchange Bonds

(1) Convertible Bonds

Debtor issued 25th non-secured convertibles on Nov. 4, 2009 (total face value : 50,000,000,000 Won, maturity date : Nov. 4, 2012), and out of the convertible bonds total face value, 37,988,520,000 Won was converted to common shares; currently, non-converted total face value of 12,011,480,000 Won.

According to the amended terms of conversion as of Dec. 16, 2010, conversion price of 37,700 Won, 318,606 convertible shares [Exhibit 1 Commercial Registry Extract].

(2) Warrants

Debtor issued 22nd convertible bonds with warrants on May 28, 2009 (total face value : 50,000,000,000 Won, maturity date : May 28, 2012), exercise period for warrants is from May 29, 2010 to April 28, 2012.

According to amended terms of exercise of warrants dated December 16, 2010, exercise price is 56,013 Won, with 892,649 shares issued by exercise of warrants [Exhibit 1 Commercial Registry Extracts].

(3) Exchange Bonds

Debtor has issued in respect of its treasury shares, 26th non-secured exchange bonds on Nov. 4, 2009 (total face value : 40,000,000,000 Won, November 4, 2012), exercise period for exchange warrants is from Dec. 4, 2009 to Oct. 4, 2012. As of date of this petition, exchange bonds of total face value 32,167,770,000 Won have been exchanged for common shares, with currently non-exercised exchange bonds having total face value of 7,832,230,000 Won.

According to the amended terms of exchange bonds dated Dec. 16, 2010, exercise price is 37,700 Won, exchangeable into 207,751 shares [Exhibit 6, Details of 26th Public Exchange Bonds Exchange Request.]

(c) Stock Options

While the Debtor is authorized to issue stock options to officers and personnel, in accordance with the limitations prescribed in the Commercial Code and pursuant to resolution of an extraordinary general shareholders meeting, it has not currently issued any stock options.

(d) Shareholders²

The shareholders known to Debtor as of November 10, 2010 are Jin Bang Lee, the largest shareholder and other specially related persons with a total of 2,745,414 (22.1%) shares, Daewoo Shipbuilding & Marine Engineering Co., Ltd. with 700,034 (5.6%) shares, Jung Wook Lee with 320,159 (2.6%) shares, Hyundai Heavy Industries Co., Ltd with 312,283 (2.5%) shares and Jung Kyu Kim (including specially related persons) with 294,817 (2.4%) shares. [Exhibit 7, Details of Share Ownership of 1% or greater]

5. Current Status of Organization, Officers and Employees

As of the date of this Petition, the CEOs are Jin Bang Lee and Jae Min Park; Soon Gap Kim, Jae Hyung Lee, Hyun Woo Cho and Woo Young Jung are appointed outside directors, and outside directors Jae Hyung Lee, Hyun Woo Cho and Woo Young Jung are also appointed as members of the Audit Committee. [Exhibit 1, Commercial Registry Extracts, and Exhibit 8-1 to 8-6, Curriculum Vitae of Each Director]

Type	Name	Date of (Re)Appointment	Others
Director	Jin Bang Lee	Reappointed March 19, 2010.	CEO and Chairman
Director	Jae Min Park	Reappointed March 21, 2008.	Appointed CEO and President on January 1, 2011. 1. 1.

² As Debtor is a listed corporation, its shares are freely traded on the stock market. Therefore a current and up-to-date shareholder registry of the company cannot be prepared until closure of the shareholder registry. After November 10, 2010, Debtor increased its capital by 4,000,000 shares by way of shareholder placement; as the shareholder registry was closed as of November 10, 2010 for this increase in capital, the statement in regards to the list of shareholders, number of shares held, total percentage of shares held is as of November 10, 2010.

Outside Director	Soon Gap Kim	Appointed March 21, 2008.	
Outside Director	Jae Hyung Lee	Appointed March 21, 2008.	Member of Audit Committee
Outside Director	Hyun Woo Cho	Reappointed March 20, 2009.	Member of Audit Committee
Outside Director	Woo Young Jung	Reappointed March 21, 2010.	Member of Audit Committee

Debtor is organized into the Planning and Administration Department, Management Support Department, Special Cargo Vessel Business Department, Bulk Carrier Business Department etc., and as of December 31, 2010 have 7 registered directors³, 4 non-registered directors and 113 employees for a total number of 124 directors and employees on land. Debtor also has a total of 263 employees (crew members) at sea (of the 263, 13 are foreign crew members, and the rest are Korean crew members). And while they are not crew members hired by Debtor, there are 441 crew members, of whom 311 are foreign crew members who are currently working on vessels operated by Debtor as a managing trustee [Exhibit 3, Company Introduction Materials, Exhibit 9, List of Directors and Employees, Exhibit 10, Current Personnel Statement, as of December 31, 2010]. Debtor has also entered into a Crew Management Agreement with Korea Marine Limited, an affiliated company, based on which Debtor has consigned the management of Debtor's crew members to Korea Marine Limited.

6. Current Status of Affiliated Companies

The group of companies of which Debtor is a part is referred to as the Korea Line Group. Companies affiliated with the group are Debtor, Kwangyang Marine Co., Ltd., Korea FA Systems Co., Ltd., Kolico Enterprise Co., Ltd., Overseas Shipping Co., Korea Marine Ltd., and Korea Line (Singapore) Pte. Ltd., an offshore affiliate located in Singapore [Exhibit 3, Company Introduction Materials, Exhibit 11, Current Status of Shareholding Structure of the KLC Group].

(a) Kwangyang Marine Co., Ltd.

This was incorporated into a separate company in February of 1989, when Debtor's Internal Sea Department became an independent entity to engage in maritime transport, business of operating maritime agencies etc. Currently, this company engages in the transport of three million tons of steel cargo and general bulk cargo annually in domestic waters. Debtor's ownership share is 58.8%.

(b) Korea FA Systems Co., Ltd.

A company established by joint investment between Debtor and Fuji Electric Co., Ltd. of Japan in 1998, this company engages in running company management information systems, automation of factory systems and other consulting, structuring, repair and maintenance business etc. Debtor's ownership share is 29.0%.

(c) Kolico Enterprise Co., Ltd.

³ Registered Director Chang Sik Kim resigned as of December 31, 2010 and is included in the Current Personnel Statement, as of December 31, 2010.

This company is engaged in the business of supplying vessel equipment, parts, oil and other goods. Debtor's ownership share is 35.0%.

(d) Overseas Shipping Co.

This company is engaged in the business of maritime brokerage. Debtor's ownership share is 9.87%.

(e) Korea Marine Ltd.

A company engaged in the business of vessel management, crew management, construction management of new vessel construction and vessel conversion, Debtor has consigned its business of vessel and crew management to Korea Marine Ltd. Debtor's ownership share is 9.89%.

(f) Korea Line (Singapore) Ptd., Ltd.

Debtor's offshore affiliate located in Singapore, it owns 6 tankers and 1 bulk carrier and carries out maritime transport business. Debtor operates 7 vessels owned by its Singapore affiliate by time charter. Debtor's ownership share is 100%.

7. Current Status of Ongoing Litigation

(a) Domestic Litigation

There are currently 6 pending litigations in domestic courts including preliminary injunction cases, including a claim for collected funds against Samsun Logix Corporation (Seoul Central District Court, 2011 ka hap 1793) etc. [Exhibit 12, List of Domestic Litigation].

(b) Overseas Litigation

A majority of Debtor's maritime transport business related disputes are settled by arbitration conducted by the London Court of International Arbitration. There are currently a total of 47 pending arbitration cases at the London Court of International Arbitration and other fora [Exhibit 13, List of Overseas Litigation].

8. Labor Unions and Employment Regulations

As of the date of this Petition there is in a place a Labor and Management Committee for the on-land employees of Debtor, and a Labor Union for the crew (at sea employees) members [Exhibit 14, Rules on Labor and Management Committee, and Exhibit 15, On-Land Employee Employment Regulations].

II. Current Status of Business etc.

1. Business

Debtor's main business consists of using bulk carriers, LNG vessels and tankers to transport such maritime cargo as iron ores, natural gases, crude oil etc. Total sales for the year 2010 were approximately KRW 2,161,000,000,000. A summary of Debtor's

business is as follows [Exhibit 3, Company Introduction Materials]:

(a) Special Cargo Vessel Business

Debtor has entered into long-term contract of affreightment (COA) agreements with POSCO, Korea Electric Power Corporation and Korea Gas Corporation and is carrying out transportation of iron manufacture materials and hot coils (for POSCO), coals for generators (for Korea Electric Power Corporation), and liquefied natural gases (LNG) (for Korea Gas Corporation).

Debtor operates 12 special cargo vessels for POSCO (total dwt of 2,032,874), 8 special cargo vessels for Korea Gas Corporation (total dwt of 599,132), and 4 special cargo vessels for Korea Electric Power Corporation (total dwt of 649,074); for the year 2010, total sales for the special cargo vessel business was 20% of total sales for Debtor.

(b) Tramp Steamer Business

Debtor engages in the transportation of grains, raw sugar, minerals, logs, scrap iron etc., between the U.S. Gulf, Australia, the west coast of Canada, Europe and Southeast Asia; transportation of coal between Canada Southeast Asia and Europe, transportation of feed grain, fertilizer and raw sugar between Canada Australia and China; transportation of iron products between Far East Asia, the Baltic sea, the Black Sea, the Middle East and Southeast Asia, thereby offering worldwide transportation service of energy and raw materials. For the year 2010, total sales for the tramp steamer business was 74% of total sales for Debtor.

(c) Oil Carrier Business

Debtor operates a total of ten oil carriers (total dwt 1,151,624) including very large crude carriers (VLCC), AFRAMAX, product tankers and very large gas carriers (VLGC). The vessels have been included in international pools such as Tankers International and are jointly managed with other leading oil carrier companies, both domestic and foreign, thereby minimizing the risk inherent in the rise and fall of market conditions and creating a stable flow of profits. For the year 2010, total sales for the oil carrier business was 6% of total sales for Debtor.

2. Current Status of COAs

Debtor has entered into COAs with POSCO, Korea Electric Power Corporation, Korea Gas Corporation and Hyundai Steel Company for the transportation of iron ores, iron products, coal and LNG using special cargo vessels, which are being used and operated by Debtor. Furthermore, Debtor has entered into COAs with Daelim Corporation, Hanjin Shipping Co., Ltd., Hyundai Merchant Marine Co., Ltd. and many overseas shipping companies for the transportation of all sorts of dry cargo [Exhibit 16, Status of Long-Term Contracts of Affreightment, Exhibit 17, List of Major Customers].

3. Business Strategy

Since its establishment in 1968, not only has Debtor has been a major player in the transportation of key industrial products such as iron ores, coal and liquid natural gases, but it specializes in the special cargo business and is number one domestically in that field. Debtor will continue in the future to diversify its special cargo business through

which it will maintain steady profits (unlike the competitive freight charge of the ordinary market, in the special cargo business, shipping companies guarantee total business costs and a certain amount of profits; i.e., production costs are guaranteed).

Based on Debtor's steady business of special cargo for energy and other resources, Debtor is also engaged in the business of operating tramp steamers for a variety of dry cargo. In the future, Debtor will seek to increase sales in this area through diversification of cargoes carried and customers, and Debtor also plans to focus its energies to converting what were mostly singular transactions into COAs to ensure a steady cashflow.

In addition, based on the business know-how and technical powers accrued over the years, Debtor will establish a fleet of very large crude carriers (VLCCs) through which it will become an active market player and thereby increase and diversify its crude carrier business.

III. Current Status of Debtor's Vessels

1. Overview of Debtor's Vessels

As a shipping company, vessels are the largest and most important business assets of Debtor. As of the date of this Petition, there are no vessels registered in the name of Debtor, but as detailed below there are ① 19 vessels in the form of BBCHPs, ② 5 vessels in the form of BBCs, ③ 2 vessels in the form of shipmanagement agreements, ④ 9 vessels being operated under time charters (TC) and owned by subsidiaries, ⑤ 155 vessels being operated under a time charter executed with an owner or a bareboat charterer, for a total of 190 vessels being operated. Normally, BBCHPs, BBCs, shipmanagement agreements and TCs are considered assets and are classified separately from vessels operated under a time charter executed with an owner or a bareboat charterer.

There are 56 vessels for which Debtor has entered into time charters with an owner or a bareboat charterer but where the delivery date has not yet arrived, and 4 vessels for which Debtor has participated as a member of a consortium for the construction of a vessel and to which Debtor has a right to share in the operational profits of the vessels.

2. Types of Vessels Owned by Debtor

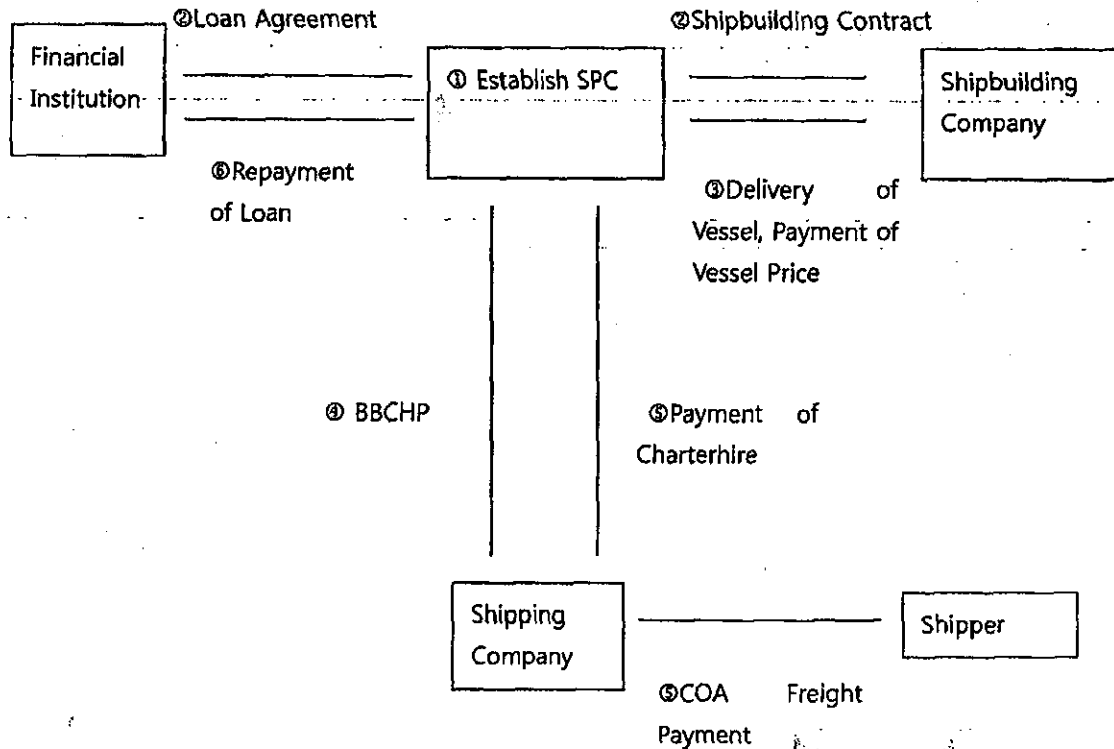
(a) Vessels Operated Under BBCHP

19 vessels are operated by Debtor by establishing an offshore special purpose company (SPC), with which the ownership of the vessel is registered and with whom Debtor enters into a BBCHP (Bareboat Charter Hire Purchase Agreement, by which the bareboat charterer hires the vessel from the owner for charterhire which is calculated based on the purchase price of the vessel, and at the end of the charter period the title to the vessel is transferred from the SPC to the bareboat charterer); the details of such vessels are as set forth below:

NO	Vessel Name	Vessel Type	Vessel Type	Year of Construction	DWT	Possession Type	Business Type
1	K. Cosmos	Bulker	Cape	1992	240,853	BBCHP	POSCO CVC
2	Begonia	Bulker	Cape	2005	180,265	BBCHP	POSCO CVC
3	White Rose	Bulker	Cape	2006	171,826	BBCHP	POSCO CVC
4	K. Aster	Bulker	Cape	2009	207,942	BBCHP	POSCO CVC
5	K. Daphne	Bulker	Cape	2009	180,786	BBCHP	Grand China Shipping
6	Goonzaran	Bulker	Cape	1994	148,663	BBCHP	Korea Southern Power Co., Ltd. COA
7	Bluebell	Bulker	Cape	1996	148,668	BBCHP	Korea Western Power Co., Ltd. COA
8	Adonis	Bulker	Cape	2006	171,743	BBCHP	Korea Southern Power Co., Ltd. CVC
9	Rosemary	Bulker	Cape	2010	179,742	BBCHP	Korea Southern Power Co., Ltd. CVC
10	Lavender	Bulker	Cape	2010	179,874	BBCHP	Glovis CVC
11	Global Brave	Bulker	Supramax	2010	57,645	BBCHP	SPOT
12	Global Frontier	Bulker	Supramax	2010	57,298	BBCHP	SPOT
13	Global Genesis	Bulker	Supramax	2010	57,338	BBCHP	SPOT
14	Global Hope	Bulker	Supramax	2010	57,338	BBCHP	SPOT
15	K. Acacia	LNG	LNG	2000	75,768	BBCHP	KOGAS COA
16	K. Freesia	LNG	LNG	2000	75,768	BBCHP	KOGAS COA
17	Bulk China	Bulker	Cape	2005	175,274	BBCHP	Drylog TC
18	DL Calla	Tanker	MR	1990	50,743	BBCHP	Daelim BBC
19	DL Navig8	Tanker	MR	2008	50,376	BBCHP	Daelim BBC

(1) Structure of BBCHP Transaction

The transaction structure of a vessel operated under a BBCHP can be explained as follows:



- ① An offshore SPC to own the vessel is established
- ② The SPC enters into (i) a loan agreement for financing of the vessel with a financial institution, and (ii) a shipbuilding contract with a shipbuilding company
- ③ After completion of vessel construction, the SPC pays the purchase price with the loan amount and receives delivery of the vessel
- ④ The SPC lets the vessel to the shipping company under a bareboat charter agreement
- ⑤ The shipping company enters into a contract of affreightment (COA) with a consignee, and receives shipping freights, with which it pays the charterhire to the SPC
- ⑥ The SPC repays the loan amount with the charter hires received from the shipping company.

(2) Key Points of a BBCHP

A BBCHP is a transaction under which a shipping company operates a

vessel based on financing from lenders and uses the earnings from operation of the vessel to repay the loan amount, upon full repayment of which the shipping company acquires title to the vessel.

The charterhire payable by the shipping company under a BBCHP is formulated so that the SPC may perform all its obligations under the loan agreement (normally, the obligation under a BBCHP is identical to that under the loan agreement); however, obligations under a BBCHP are relatively long term so that earnings from operation of the vessel may be used to repay the loan, and at the end of the charter period, the title to the vessel is transferred to the shipping company. The SPC's rights under a BBCHP are assigned to the lenders as security, and therefore, it is as though the shipping company bears the SPC's obligations.

(3) Debtor's BBCHP Structure

The BBCHPs under which Debtor's vessels are operated are no different from the general structure as explained above. For example, the structure for the vessel named "K.ACACIA" is as follows: Firstly, the legal titleholder of the vessel "K.ACACIA" is a Panamanian SPC named Horizon Maritime Shipholding S.A.; the vessel is, of course, registered in Panama. Citibank, which provided the financing for acquisition of this vessel, is the first preferred mortgagor of this vessel [Exhibit 18, Vessel Registration Certificates]. The shareholder of the SPC is Yul Ki Lee, an employee of Debtor's Singaporean affiliate, and the directors of this SPC are employees of Debtor (directors to SPCs in relation to other vessels are also either employees of Debtor, or agents designated by Debtor).

Debtor has entered into a BBCHP agreement with the SPC, and is operating this vessel based on a contract of affreightment entered into with Korea Gas Corporation. In order to secure its obligations to the lender, the SPC has assigned as security to the lender all its rights to the charterhire under the BBCHP by way of an English law governing security assignment, and the rights of Debtor to the freight fare under the COA have been assigned to the lender by way of a Korean law governing security assignment [Exhibit 19, the KACACIA BBCHP]. Once the SPC has fully repaid its loan to the lender using the charterhire paid by Debtor to the SPC, Debtor will acquire the relevant vessel from the SPC for a nominal consideration of one dollar.

(4) The Owner of the BBCHP Vessel

Accounting-wise, a BBCHP vessel is classified as Debtor's asset, and in that sense, is treated as a finance lease. However, as the owner of a BBCHP vessel is the SPC, a BBCHP agreement is a unperformed (executory) bilateral contract. In debtor rehabilitation cases of Samsun Logix, Daewoo Logistics Corp. and Trans Pacific Carriers Co., Ltd., the court ruled that [BBCHPs] were unperformed (executory) bilateral contracts, and as such, the custodian had the right to select whether to perform the contract or not. Please refer to [Exhibit 20, Current Status of Outstanding Loans In Relation to Each Financial Institutions for KLC-BBCHP Vessel] for a detailed account of the SPC (owner) for each vessel, the lender thereto and the outstanding loan amount.

(b) Vessels Operated Under a BBC

The operation method of a vessel under a BBC (Bareboat charter; a transaction under which a shipping company operates a vessel leased from the owner and pays regular charterhire and then returns the vessel to the owner at the end of the charter period) is the same as that under a BBCHP with the exception that the bareboat charterer does not have the option to purchase the vessel at the end of the charter period.

However, in the case of the 5 vessels detailed below, Debtor, after operating the relevant vessels under a BBCHP and repaying the full amount of the loan to the lenders, acquired the title to the vessels from the SPC and then, as a part of Debtor's plan to improve its financial structure, resold the vessels to an SPC (Tiger United S.A.) established by Mitsubishi of Japan and entered into BBC agreements with the SPC (Sale & Lease Back), under which the vessels are currently being operated. But as there are purchase option clauses in these BBC agreements pursuant to which Debtor may acquire the vessels at the end of the charter period for a nominal consideration (1 yen), they are in actuality identical to that of BBCHP agreements.

NO	Vessel Name	Vessel Type	Vessel Type	Year of Construction	DWT	Possession Type	Business Type
1	Silver Bell	Bulker	Cape	1989	207,671	BBC	POSCO COA
2	Marigold	Bulker	Cape	1990	207,250	BBC	POSCO COA
3	K. Camellia	Bulker	Cape	1990	207,874	BBC	POSCO COA
4	Golden Bell	Bulker	Cape	1990	207,724	BBC	POSCO COA
5	Anemone	Bulker	Cape	1990	151,439	BBC	POSCO COA

(c) Vessels Operated Under Shipmanagement Agreements

Debtor (36%), together with STX Pan Ocean Co., Ltd. (18%), Hyundai Merchant Marine Co., Ltd. (18%), and Korea Gas Corporation (28%) established Korea LNG Trading Co., Ltd. and constructed 4 vessels under BBCHP. Of the 4 vessels, Debtor entered into shipmanagement agreements with Korea LNG Trading Co., Ltd for the two vessels below and is currently employing the vessels under such shipmanagement agreements. The profit and/or loss of the operation of the vessel are borne by Korea LNG Trading Co., Ltd., and Debtor receives ship management fees.

NO	Vessel Name	Vessel Type	Vessel Type	Year of Construction	DWT	Ownership Type	Business Type
1	K. Jasmine	LNG	LNG	2008	84,934	JV Owned	KOGAS COA
2	K. Mugungwha	LNG	LNG	2008	87,441	JV Owned	KOCAS COA

(d) Time Charter of Vessels Owned by Subsidiaries

Debtor is currently operating, under time charters, 2 vessels owned by Kwangyang Marine Co., Ltd., and 7 vessels owned by Korea Line (Singapore)

Ptd., Ltd., as detailed below:

NO	Vessel Name	Vessel Type	Vessel Type	Year of Construction	DWT	Possession Type	Business Type
1	Delta pride	Bulker	Handy	1991	38,486	TC(Owned by Kwangyang Marine Co., Ltd.)	POSCO COA
2	New Horizon	Bulker	Handy	1992	38,486	TC(Owned by Kwangyang Marine Co., Ltd.)	POSCO COA
3	Bule Coral	Tanker	MR	2008	49,900	TC(Owned by Korea Line (Singapore) Ptd., Ltd.)	NYK TC
4	Blue Jasper	Tanker	Afra	2008	105,905	TC(Owned by Korea Line (Singapore) Ptd., Ltd.)	HMM TC
5	Blue Diamond	Tanker	MR	2008	49,900	TC(Owned by Korea Line (Singapore) Ptd., Ltd.)	NYK TC
6	Blue Emerald	Tanker	MR	2009	49,900	TC(Owned by Korea Line (Singapore) Ptd., Ltd.)	OSG TC
7	Blue Sapphire	Tanker	Afra	2009	105,860	TC(Owned by Korea Line (Singapore) Ptd., Ltd.)	HMM TC
8	Blue Jade	Tanker	MR	2009	49,900	TC(Owned by Korea Line (Singapore) Ptd., Ltd.)	Ultragas TC
9	Poinsettia	Bulker	Cape	2010	174,667	TC(Owned by Korea Line (Singapore) Ptd., Ltd.)	POSCO CVC

The lenders for the financing of vessels owned by the Singaporean subsidiary and the loan amount outstanding is as detailed in [Exhibit 21, Outstanding Loan Amount to Financial Institutions for KLS-Vessel Financing], and Debtor is a guarantor for each of the above loans.

(e) Vessels Operated by Debtor under Time Charters ~~with Owners~~ or Bareboat Charterers

Currently the number of vessels operated by Debtor under time charters with owners or bareboat charterers of such vessels is 155, and of those vessels, delivery dates for 56 have not yet arrived, although Debtor has already executed time charter agreements with the owners or bareboat charterers of such vessels [Exhibit 22, Current Status of Time Charterparty / Demise-Charterparty Agreements].

(f) Shares of Vessels Owned by Debtor through Participation in a Consortium

Debtor formed a consortium with Hanjin Shipping Co., Ltd., SK Shipping Co., Ltd. and Hyundai Merchant Marine Co., Ltd and constructed vessels under BBCHPs. As the loan for each constructed vessels were repaid, the title to each of the vessels was transferred from the relevant SPC to each operating company as detailed below; Debtor is receiving dividends from the operating profit from such vessels in accordance with its participation ratio in the consortium.

NO	Vessel Name	Vessel Type	Vessel Type	Year of Construction	DWT	Operating Company (Owner)	Participation Ratio
1	H.Utopia	LNG	LNG	1994	3,050	Hyundai Merchant Marine Co., Ltd.	2.44%
2	YK.Sovereign	LNG	LNG	1995	17,725	SK Shipping Co., Ltd.	14.18%
3	HJ.Peongtaek	LNG	LNG	1995	12,610	Hanjin Shipping Co., Ltd.	9.80%
4	H.Greenpia	LNG	LNG	1996	7,450	Hyundai Merchant Marine Co., Ltd.	5.96%

IV. Current Status of Debtor's Assets, Liabilities and Capital

Since its establishment in 1968, Debtor has continued its operation with outer-waters cargo transportation as its core business, and with 190 vessels in operations, it is a leading domestic shipping company. Debtor has continued its growth in step with its level of business profits, but due to the sudden global financial crisis in the latter half of 2008 and the slump in the global shipping industry, Debtor came into a major crisis in respect of its assets and profit-loss status. The comparative financial position statements of Debtor for years 2006 to 2010 are as shown below.⁴ [Exhibit 23-1 through 23-3, Audit Reports, Exhibit 24, Comparative Financial Position Statement, Exhibit 25, Comparative Profit and Loss Statement]

1. Assets

- (a) Debtor's total assets as of December 31, 2010 is approximately 2,870,000,000,000 KRW, and a summary of the particulars and the changes thereto over the past 5 years are as follows (the following items are in accordance with the provisional financial position statement as of December 31, 2010):

(unit: KRW1,000)

Item/Fiscal Year	2006.12.31.	2007.12.31.	2008.12.31.	2009.12.31.	2010.12.31.
Assets	1,375,786,427	2,017,932,970	2,537,983,568	2,762,062,301	2,870,083,196
I. Current Assets	210,528,554	668,577,907	719,280,479	641,004,678	482,374,506
1. Quick Assets	190,875,821	642,526,307	689,911,761	595,710,105	438,143,151
Cash Assets	8,433,164	150,522,629	236,609,476	144,576,022	26,707,096
Short Term Financial Products	30,330,571	273,626	483,098	52,196,297	106,268,818
Short Term Marketable Securities	45,476,682	140,118,421	-	-	-

⁴ Since the 2010 financial year, Debtor has been preparing its financial statements in accordance with the K-IFRS, but the provisionally settled financial statements shown below have been re-classified for the purposes of comparison with the former financial statements prepared in accordance with business accounting principles. Debtor's financial statement for 2010 will show consolidated accounts in accordance with the K-IFRS.

Account Receivable	37,006,243	61,265,622	173,721,095	304,734,631	265,790,160
Loss Reserve	(452,769)	(511,853)	(2,311,207)	(57,485,665)	(91,793,483)
Note Receivable	22,136,434	25,341,583	57,679	8,163,993	1,682,872
Present Value Discount Account	-	-	-	(575,444)	-
Unrealized Gain	203,538	1,106,369	1,746,280	854,848	994,224
Advance to Customer	-	400	22,915	8,375	1,293,308
Prepaid Expense	40,229,958	88,648,630	131,577,486	127,405,830	118,292,036
Prepaid Tax Expense	-	-	-	-	330,947
Derivative Product Assets	-	166,748,101	135,867,268	-	-
Other Quick Assets	7,512,001	9,012,778	12,152,209	15,816,677	8,577,170
2. Inventory	19,652,733	26,051,500	29,368,718	45,384,572	44,231,356
Stored Goods	19,652,733	26,051,600	29,368,718	45,384,572	44,231,356
II. Non-Current Assets	1,165,257,874	1,349,355,063	1,818,703,089	2,120,967,623	2,387,708,690
1. Investments	34,066,514	110,450,787	293,734,044	221,433,725	275,724,806
Long Term Loans	-	52,034,488	76,279,554	70,084,752	72,263,138
Bad Debt Provisions	(-)	(-)	(285,990)	(409,832)	(409,834)
Long Term Financial Products	207,500	459,500	16,000	16,000	116,089
Marketable Securities	3,162,591	23,617,591	65,436,750	5,784,240	6,202,496
Held-to-maturity Securities	-	-	-	1,800,000	1,800,000
Equity Method Stakes	30,696,423	34,339,208	152,287,730	144,158,565	138,075,770
2. Tangible Assets	1,126,218,710	1,188,775,542	1,518,693,354	1,851,180,082	2,108,803,744
Land	34,972,608	30,891,038	40,026,522	36,409,526	33,421,926
Buildings	8,493,642	3,929,642	20,093,015	16,801,073	15,120,410
Accumulated Depreciation	(1,793,771)	(960,728)	(956,988)	(836,213)	(798,151)
Ships	1,397,741,676	1,415,490,636	1,637,535,690	1,918,724,716	2,324,470,873
Accumulated Depreciation	(368,681,260)	(418,507,773)	(501,397,902)	(424,003,035)	(486,635,942)
Equipment	260,526	378,945	481,855	273,004	217,675
Accumulated Depreciation	(173,343)	(214,822)	(302,895)	(190,994)	(170,338)

Equipment	1,650,660	1,855,578	3,017,776	2,667,420	2,603,037
Accumulated Depreciation	(1,277,511)	(1,428,731)	(855,475)	(1,213,571)	(1,593,130)
Construction in Progress	55,025,482	157,341,758	321,051,754	304,548,154	222,167,383
3. Intangible Assets	-	825,000	-	1,233,139	-
Usable and Profitable Donation Assets	-	825,000	-	1,233,139	-
4. Other Non-Current Assets	4,972,650	49,303,734	6,275,691	47,120,678	60,857,286
Currency Forwards	-	52,800	-	-	-
Index Forwards	1,571,416	44,459,887	-	-	-
Warranties	3,401,234	4,791,047	6,275,691	47,120,678	57,677,145
Real Estate Investments	-	-	-	-	3,180,141

(b) The key changes to Debtor's assets are as follows:

- (1) The total amount of Debtor's cash or cash equivalent funds and short and long term financial products, which make up its disposable funds, steadily decreased from KRW 237,108,000,000 in 2008 to KRW 196,788,000,000 in 2009 to KRW 133,092,000,000 in 2010 due to massive losses throughout 2009 to 2010, and in the latter half of 2010, there was a decrease of approximately KRW 63,696,000,000 compared to the first half-year. During 2010, an inflow of KRW 129,926,000,000 was raised by KRW 99,926,000,000 in sales from sale and leaseback financing, KRW 30,000,000,000 from issuing bonds and other activities to strengthen finances. On the other hand there was a loss of KRW 55,999,000,000 in cash reserves due to business losses, a KRW 10,778,000,000 reserve for repayment of ABS, an increase in operating capital of KRW 37,858,000,000, expenditure of KRW 174,662,000,000 for vessel construction costs and repayment of vessel financing, repayment of debts of KRW 30,573,000,000, repayment of bonds with warrants of KRW 31,500,000,000, ultimately resulting in more losses in cash reserves than gains.
- (2) Sales amounting to a total of KRW 3,311,400,000,000 for the year 2008 declined to KRW 2,279,300,000,000 for the year 2009 as a result of the global financial crisis of late 2008 and deterioration of the shipping industry due to the depression of the world economy. Along with such decline, charterers who had chartered Debtor's vessels began to delay making payment of charterhires, resulting in an increase of KRW 131,000,000,000 of Debtor's account receivables for the latter half of 2009 when compared with the first half, and a significant portion of that amount was deferred to 2010. This was another cause contributing to Debtor's financial balance, and as a result, Debtor has set aside approximately KRW 91,700,000,000 as a loss reserve.
- (3) In 2009, Debtor sold two vessels to Kwanggyang Marine Co., Ltd. (book value KRW 13,135,000,000) by way of sale and leaseback, and while the account receivable was noted in the financial statement as of the end of 2009, the total amount was received during 2010.

- (4) In 2010, Debtor increased its capital, by which it received KRW 86,600,000,000; during this process, Debtor loaned a portion of the share purchase price to Debtor's members of the employee stock ownership plans, which resulted in an increase of approximately KRW 1,280,000,000 in the advance item as of the end of 2010.
- (5) The other quick asset item is mostly comprised of domestic and foreign agent office advance payments which will later be replaced by freight rates of operated vessels; as Debtor increased the ratio of charters for its vessels and hired vessels during 2010 due to deteriorating freight factors such as the fall in freight rates of Debtor, the total number of vessels directly operated by Debtor fell, causing a KRW 7,239,000,000 decrease compared to the previous half-year.
- (6) In order to increase the amount of available funds, Debtor sold all of the shares it held as of the end of 2008 in such listed companies as Hanjin Shipping Co., Ltd., POSCO, Daewoo Shipbuilding & Marine Engineering Co., Ltd., during 2009 and as a result, Debtor's marketable securities as detailed under non-current assets item decreased by approximately KRW 59,652,000,000.
- (7) Debtor's investment in its subsidiaries which are subject to consolidated financial statements (Kwangyang Marine Co., Ltd., Korea Line Singapore Pte., Ltd.) which were previously treated as equity method stakes was, in 2010, due to the introduction of the K-IFRS method, treated as a cost-value method in a separate financial statement and thus the equity stake method account increased by approximately KRW 6,082,000,000.
- (8) The number of vessels owned by Debtor (including BBCHP vessels, BBC vessels sold to the SPC established by Mitsubishi of Japan, vessels chartered from the subsidiary in Singapore) increased steadily, and was 26 as of the end of 2008, 33 as of the end of 2009 and 37 as of the end of 2010. As a result, the ship account under the tangible assets column increased by KRW 279,189,000,000 in 2009 and KRW 407,746,000,000 in 2010.
- (9) The construction in progress item under non-current assets is mostly comprised of vessels under construction, and in 2010, due to the sale of a portion of such vessels and completion of a portion of such vessels, decreased by approximately KRW 82,380,000,000 compared to the previous period. As of the end of 2010, there are a total of 11 vessels under construction for Debtor; however, construction for two of the vessels has been discontinued by agreement, and Debtor is planning on cancelling construction for one of the vessels. The remaining 8 vessels are scheduled to be delivered as planned and 3 vessels will be completed in 2011, and 5 vessels will be completed sometime during or after 2012 and will begin normal operations [Exhibit 26, Status of KLC Newbuilding].
- (10) In 2009, Debtor sold 5 of its vessels to Tiger United S.A., an SPC established by Mitsubishi of Japan by way of sale and leaseback (to be operated by Debtor under a BBC) and reserved approximately KRW 42,363,000,000 for a payment guarantee for payment of charterhire; and in 2010, Debtor securitized future receivable accounts and issued asset-backed securities. Therefore, Debtor has set aside approximately KRW 10,778,000,000 of accounts receivable for repayment of the securities. As a result, the reserve account of Debtor has increased correspondingly. Of the above amount, the reserve for payment guarantee of payment of charterhire is planned to be used for payment of

purchase price for 4 vessels currently under construction at the Universal shipyard, and the ABS repayment reserve will be used to repay the ABS in February, 2011.

(11) Until 2008, Debtor engaged in index futures transaction which used freight fares and the freight index as basic assets against the contract price at a certain point in the future to calculate the balance between the two, and currency futures transaction which converted the currency of a contract currency at a certain point in the future, but since 2009, Debtor has not engaged in derivative transactions.

(12) In the 2008 fiscal year, Debtor introduced the functional currency system under the business accounting principle, and since 2010, has prepared its financial statement based on the K-IFRS. The conversion from introducing the K-IFRS is affecting each account, and in addition, the continued fall of the U.S. dollar, which is the functional currency, during the past three years has caused a stated currency translation loss (KRW 262,003,000,000 for 2008, KRW 284,655,000,000 for 2009 and KRW 244,292,000,000 for 2010) when converting the financial statement prepared under the functional currency system to the stated currency.

2. Liabilities

(a) Debtor's total liabilities as of December 31, 2010 is approximately KRW 2,301,400,000,000 and a summary of each item comprising its liabilities and the changes over the last five years are as follows (the following items are in accordance with the provisional financial position statement as of December 31, 2010):

(Unit : KRW 1,000)

Item/Fiscal Year	2006.12.31	2007.12.31	2008.12.31	2009.12.31	2010.12.31
Liabilities	861,136,561	1,112,244,453	1,384,142,391	2,137,571,707	2,301,498,412
1. Current Liabilities	167,150,461	390,672,535	560,648,742	484,425,923	506,140,155
Accounts Payable	38,365,371	71,527,099	147,751,584	99,449,355	112,900,636
Accrued Payables	3,159,110	7,493,437	5,999,159	26,407,868	4,060,418
Other Advance for Customers	3,515,808	7,753,373	34,416,653	39,705,806	41,586,239
Payables	4,000,000	-	-	48,573,715	18,000,000
Tax payables	3,762,533	6,887,632	10,548,333	-	-
Accrued Expenses	8,625,583	8,270,772	7,458,066	5,723,881	7,315,801
Accrued Dividends	23,648	28,095	41,435	42,867	42,867
Income in Advance	22,375,741	55,523,969	55,649,082	29,9984,205	24,755,469
Current Bonds	-	-	54,900,000	68,000,000	108,000,000

Bond Discounts	-	-	-	(199,466)	(278,117)
Current Bonds with Warrants	-	-	4,800,000	-	-
Adjustment for Warrant Rights	(-)	(-)	(50,081)	(-)	(-)
Current Long Term Debt	357,400	258,400	353,150	41,773,400	30,240,400
Current Long Term Accrued Payables	100,102,444	97,918,710	137,228,342	123,952,012	150,937,949
(Present Value Discount Account)	(40,381,944)	(41,052,175)	(51,931,346)	(49,697,763)	(45,863,119)
Current Finance Lease Accrued Payables	-	-	-	50,710,244	58,300,031
Convertible Bonds	20,000,000	-	-	-	-
Bond Discounts	(48,069)	(-)	(-)	(-)	(-)
Adjustment of CB Rights	(345,150)	(-)	(-)	(-)	(-)
Premium from Redemption of Bonds	886,176	-	-	-	-
Derivative Product Debt	-	143,254,357	147,168,452	-	-
Deferred Tax Liability	2,751,808	32,808,865	6,315,914	-	-
2. Non-current	693,986,100	721,571,918	823,493,649	1,653,146,784	1,795,358,257
Bond	54,900,000	54,900,000	-	150,000,000	140,000,000
Bond Discounts	(-)	(-)	(-)	(560,570)	(562,733)
Convertible Bonds	-	-	-	49,520,740	12,011,480
Adjustment of CB Rights	(-)	(-)	(-)	(6,052,516)	(991,725)
Premium from Redemption of Bonds	-	-	-	4,877,585	1,183,080
Bond Discounts	(-)	(-)	(-)	(1,121,572)	(183,773)
Consideration for CB Rights	-	-	-	-	356,329
Exchangeable Bonds	-	-	-	39,616,592	7,832,230
Adjustment of EB Rights	(-)	(-)	(-)	(4,842,076)	(646,731)
Premium from Redemption of Bonds	-	-	-	3,902,068	771,442
Bond Discounts	(-)	(-)	(-)	(916,423)	(122,402)
Consideration for EB Rights	-	-	-	-	232,349
Bond with Warrants	9,500,000	9,500,000	-	50,000,000	18,500,000
Adjustment of Warrant Rights	(633,108)	(378,599)	(-)	(11,843,053)	(2,715,782)

Premium from Redemption of Bonds	-	-	-	10,201,650	3,774,610
Bond Discounts	(-)	(-)	(-)	(632,281)	(153,742)
Consideration for Warrant Rights	-	-	-	-	4,043,022
Long Term Bonds Payables	1,618,600	1,031,400	678,250	42,404,850	42,164,450
Long Term Accrued Payables	857,928,365	845,876,705	1,067,675,578	1,021,850,976	1,075,808,791
Present Value Discount Account	(254,013,716)	(230,739,643)	(263,160,728)	(231,776,023)	(158,560,754)
Finance Lease Accrued Payable	-	-	-	479,231,510	514,802,045
Deferred Advance Income	-	-	-	51,755,127	29,164,800
Current Debt	6,311,177	-	-	-	-
Reserved Debt for Retirement Allowances	7,681,677	11,428,818	14,457,107	8,280,400	9,193,212
Deposit for Retirement Insurance	(3,863,976)	(5,677,645)	(7,678,038)	(4,214,064)	(4,134,529)
Transfer from National Pension	(116,111)	(101,502)	(95,637)	(82,638)	(77,676)
Lease Key Money	227,130	275,318	223,013	3,545,504	3,743,416
Long Term Unearned Revenue	-	-	-	-	99,926,850
Index Forward	5,786,345	19,327,611	-	-	-
Currency Forward	63,278	2,891,000	-	-	-
Deferred Tax Liability	8,596,438	13,238,456	11,394,105	-	-

(b) The key changes to Debtor's liabilities are as follows:

- (1) From approximately KRW 3,311,400,000,000 in sales during 2008, there was a steep decrease to approximately KRW 2,179,300,000,000 in sales during 2009 due to the deterioration of the shipping industry. As a result, while Debtor's account payable as of the end of 2009 decreased largely by KRW 48,302,000,000 compared to the previous period, due to the continued slump in the economy and deterioration of business conditions, such as hire earnings falling below the purchase price of the vessel, the account payable item increased by about KRW 13,453,000,000 as of the end of 2010 against the previous period.
- (2) Due to the deterioration of Debtor's finances, in 2009 Debtor issued corporate bonds in the amount of KRW 218,000,000,000, bonds with warrants in the amount of KRW 50,000,000,000 and exchangeable bonds in the amount of KRW 40,000,000,000 to raise disposable funds. Of the above, the convertible rights and exchangeable rights of the CB and EBs were exercised and accordingly decreased in the year 2010 in the amount of KRW 37,509,000,000 and KRW 31,784,000,000, respectively, and approximately KRW 31,500,000,000 of the bonds with warrants were repaid. However, through conversion issue etc, corporate bonds increased by approximately KRW

30,000,000,000 during 2010.

- (3) Debtor's short and long term debt decreased by KRW 30,573,000,000 and KRW 11,773,000,000 respectively during the year 2010, and Debtor appropriated funds raised by increase of capital (KRW 86,600,000,000), sale and leaseback, and asset backed securitization for the repayment of loans and bonds.
- (4) In 2010, the vessel (including vessels under construction) account of Debtor increased by approximately KRW 319,376,000,000, and as a result, the long term debt for vessel financing (BBCHP) and finance lease debt increased by KRW 80,943,000,000 and KRW 43,160,000,000 respectively. The difference was covered by funds raised by capital increase, sale and leaseback, asset backed securitization, etc.
- (5) In 2010, Debtor securitized future accounts receivables (POSCO operation receivables) and issued asset backed securities and thereby raised KRW 99,926,000,000 which has been appropriated to the long term income in advance.

3. Capital

- (a) As of December 31, 2010, Debtor's total capital is approximately KRW 568,600,000,000 and the summary of each item and the changes over the past 5 years are as follows (the following items are in accordance with the provisional financial position statement as of December 31, 2010):

(Unit : KRW 1,000)

Item/Fiscal Year	2006.12.31	2007.12.31	2008.12.31	2009.12.31	2010.12.31
Shareholder Equity	514,649,867	905,688,517	1,153,841,177	624,490,594	568,584,785
1. Equities	50,000,000	57,620,665	57,620,665	57,620,665	82,115,610
2. Additional Paid-In Capital	50,067,311	84,260,065	85,557,117	92,307,258	182,284,881
Additional Paid-In Capital – Common Stock	4,041,274	40,171,741	40,171,741	40,171,741	138,184,579
Market Adjustments	24,950,265	24,950,265	24,950,265	24,950,265	24,950,265
Gain on Sale of Treasury Stock	17,984,202	19,138,059	19,942,335	19,942,335	19,150,037
Other Additional Paid-In Capital	3,091,570	-	492,776	7,242,917	-
3. Capital Adjustments	(2,675,849)	(29,229,363)	(152,695,993)	(152,695,993)	(120,717,697)
Treasury Stock	(2,675,849)	(29,229,363)	(152,695,993)	(152,695,993)	(41,697,940)
Loss on Sale of Treasury Stock	-	-	-	-	(79,019,756)
4. Other Accumulated Comprehensive Income	814,989	4,220,194	192,846,983	255,090,544	242,832,479

Recapitalization of Equity Method	814,989	3,689,988	-	-	-
Negative Recapitalization of Equity Method	-	(154,776)	(5,974,100)	(5,384,803)	-
Gain from Marketable Securities	-	684,983	-	-	-
Loss from Marketable Securities	-	-	(85,834,334)	(1,538,196)	(1,459,629)
Stated Currency Translation Gain	-	-	284,655,416	262,003,543	244,292,108
5. Retained Earnings	416,443,416	788,816,956	970,512,406	372,178,120	182,069,511
Legal Reserves	14,000,000	15,000,000	18,000,000	18,600,000	18,600,000
Appropriations	278,208,227	375,208,227	705,208,227	705,208,227	7,507,025
Appropriated Retained Earnings	124,235,189	398,608,729	247,304,179	(351,630,108)	155,962,486

(b) The key changes to Debtor's capital is as follows:

- (1) In the fourth quarter of 2010, Debtor increased its capital by 4,000,000 shares (issue price per share: KRW 21,650), for a total of increase in the capital of KRW 20,000,000,000, and the additional paid-in capital increased by KRW 66,600,000,000. In addition, due to exercise in CB rights of convertible bonds, the capital increased by another KRW 4,495,000,000.
- (2) With delivery of treasury shares (acquisition price KRW110, 998,000,000) due to exercise of EB rights of exchangeable bonds, a loss of KRW 79,019,000,000, the difference between the consideration for EB rights and the price of the shares, was incurred.
- (3) With the introduction of functional currency accounting under business accounting from the 2008 fiscal year, Debtor has itemized the difference between the closing exchange rate of assets and liabilities and the exchange rate to the stated currency under the stated currency translation gain.

V. Current Status of Sales and Profit and Losses of Debtor

Debtor maintained stable management, realizing a net income of KRW 110,403,000,000 for 2006, KRW 379, 813,000,000 for 2007 and KRW 367,801,000,000 for 2008. However, due to the recent and steep slump in the shipping industry and deterioration of the managing environment, Debtor has experienced enormous difficulties in its financial status and business record, posting net income losses of KRW 593,095,000,000 and KRW 261,045,000,000 for 2009 and 2010, respectively.

1. The key changes to Debtor's sales and profit and loss changes for the past 5 years are as follows (the following items are in accordance with the provisional financial position statement as of December 31, 2010)[Exhibit 23-1 through 23-3, each Audit Report, Exhibit 24, Comparative Profit and Loss Statement]:

(Unit: KRW 1,000)

Fiscal Year	The 40 th Period	The 41 st Period	The 42 nd Period	The 43 rd Period	The 44 th Period
Items	(06.1~06.12)	(07.1~07.12)	(08.1~08.12)	(09.1~09.12)	(10.1~10.12)
Sales	1,150,186,549	1,971,282,993	3,311,412,158	2,279,323,214	2,161,048,162
Cost of Goods Sold	1,047,568,623	1,620,498,816	2,773,229,716	2,691,291,049	2,256,836,827
Gross Profit	102,617,926	350,784,177	538,182,442	(411,967,833)	(95,788,664)
Selling Expenses & Administrative Expenses	13,319,802	19,816,373	22,644,069	76,131,602	47,583,058
Operating Income	89,298,124	330,967,804	515,538,373	(488,099,434)	(143,371,722)
Other Revenue	106,038,441	454,043,368	507,058,358	118,969,617	63,475,439
Other Expenses	77,310,465	362,110,354	652,743,147	262,326,169	181,149,091
Income from continuing operations before taxes	118,026,100	422,900,818	369,853,584	(631,455,985)	(261,045,375)
Tax	7,622,438	43,088,926	2,052,437	(38,360,206)	-
Net Income	110,403,662	379,813,892	367,801,147	(593,095,780)	(261,045,375)

2. The key changes to Debtor's sales and profit and loss are as follows:

- (a) While the number of vessels operated did not decrease, Debtor's sales fell from around KRW 3,311,412,000,000 in 2008 to around KRW 2,279,323,000,000 in 2009 for a steep decrease of about 32%, resulting in a sharp deterioration of Debtor's business performance. As we will discuss again below in relation to the cause of economic failure, this can be traced back to the Baltic Dry Index (BDI), an index of the shipping industry's economy, which went from an annual average of 6,396 in 2008 to an annual average of 2,558 in 2009, and the steep decrease of world-wide quantity of goods. In 2010, the annual average of the BDI index remained at 2,736, and the U.S. Dollar which serves as the functional currency for Debtor fell from around KRW 1,276.30 in 2009 to around KRW 1,156.26 in 2010, a fall of around 10%, leading to a 5% decrease in sales for 2010 compared to the previous period.
- (b) The sales amount against the cost of goods sold for the year 2009 and 2010 exceeded around KRW 411,967,000,000 and KRW 95,788,000,000 respectively, and the corresponding amount as been appropriated as gross loss. This is the result of the rise in the rate of cost to sale from 84% in 2008 to 118% in 2009, and 104% in 2010, and the decisive cause being the rate of cost to sale rising above 100% is the serious imbalance in the long term charter agreements. Debtor engaged in large-scale long-term charters during the 2007-2008 period when the BDI index was above 10,000 points, and as a result, is paying high charterhire to a number of customers, but the freight fare received by Debtor has fallen to 60-90% of the charterhire. While Debtor leased out its vessels under long-term COAs at a high freight fare, due to deterioration in the business of the shippers, bankruptcies and defaults, many of these shippers are not performing its obligations under the COAs and are returning the vessels to Debtor. As a result, Debtor had no choice but to re-charter the vessels on the market at lower fares, and at the same time, due to the fall in ship transport

fares, the earnings from hiring of the vessels cannot cover the high charterhires.

Due to the above, the total amount paid as charterhire was KRW 1,666,900,000,000, which was 77% of total sales (74% of total cost), and in 2009, the total amount paid as charterhire exceeded 80% of total sales, resulting in serious difficulties for Debtor's business losses and financial status.

- (c) The dramatic increase in the selling expenses and administrative expenses during 2009 was due to appropriation of KRW 53,412,000,000 more for writing off bad debts compared to the previous period. Due to bankruptcies and defaults by business counter-parties caused by the deterioration of the shipping industry's economy, there was an increase in the amount of bad debts, and this continued throughout 2010, and in 2010, Debtor appropriated an additional KRW 34,307,000,000 for writing off bad debts.
- (d) During 2007-2008, Debtor engaged in index futures transactions and currency futures transactions, and had derivative product profits or derivative products appreciation profits (derivative product loss or derivative products depreciation losses) of KRW 327,628,000,000 (283,339,000,000) and KRW 427,464,000,000 (485,924,000,000) respectively; however, Debtor ceased trading in derivatives after 2009. As a result, other revenue and other expenses decreased.
- (e) Throughout 2009 and 2010, Debtor began sale of its vessels in earnest as a part of its business strategy, and profits from sale of tangible profits was KRW 37,552,000,000 and KRW 21,359,000,000 of other revenue was realized.
- (f) The interest paid by Debtor was KRW 46,839,000,000 for 2008, KRW 71,731,000,000 for 2009 and KRW 92,066,000,000 in 2010, increasing steadily. This was caused by Debtor raising new capital by way of loans, issuing bonds, ABS and ABL securities etc for additional operating funds and funds for investments.

Up until 2008, Debtor, by being subject to special treatment as a shipping company under the Restriction of Special Taxation Act, paid in lieu of corporate taxes on its income, a 'tonnage tax' in proportion to the number of days of sailing of the vessels held. However, since 2009 when instead of business profits only losses were recorded, Debtor has foregone the application of the 'tonnage tax' and has not paid any corporate tax.



VI. Financial Crisis as cause of Rehabilitation Petition

1. Collapse in charter rates due to global economic recession

The U.S. financial crisis which occurred in latter half of 2008 resulted in a global recession, and this resulted in dramatic decreases in various industrial production capacities. Reduction in industrial capacities further resulted in a reduction of freight volumes relating to iron ore, coal, cement, grain commodities, etc. materials, with the Baltic Dry Index (BDI) going from a peak of 11,793 in May of 2005 to 2,000 or lower in October 2008. In January of 2009, BDI went as low as 800. Thereafter, BDI recovered to 2,700 in October of 2010, but contrary to expectations it has decreased after November 2010 to 1,400 as of January 2011 [Exhibit 27 Recent Trend in BDI Index]. Due to the progression of events relating to decrease in freight income, Debtor's financial conditions have deteriorated.

In addition, Debtor is currently operating some 150 chartered vessels, where the ship operating expenses (total of direct operating expenses such as fuel costs and port charges, etc. and charter rates) significantly exceed charterhire income generated from the vessels, far exceeding the freight and chartering income. Thus, Debtor's business index has deteriorated significantly.

2. Increase in delinquent claims and losses resulting from delinquencies in charterparty customers

In anticipation of the change in market conditions, in the case of chartered ships Debtor had engaged in time charterparty/demise charterparty business by entering into long term demise charterparties after entering into long-term time charterparty contracts, hedging the risk from decrease in market conditions. However, the decrease in shipping rates attributed to management risk for shipping businesses globally, and many domestic and overseas shipping companies applied for bankruptcy or rehabilitation, declaring payment defaults.

Among customers entering into long-term charterparty contracts with Debtor, a significant number of such customers could not pay charterhire rates under demise charterparty contracts or had to return the chartered ships, resulting in payment defaults. As a result, Debtor had an increase in delinquent claims and a deterioration of profits from its time charterparty/demise charterparty business due to the return of ships (resulting from charterhires paid by the Debtor to the shipowner exceeding the demise charterhires received from the demise charterparty customers or the direct operating profits from the ships).

Due to the aforementioned shipowner's non-performance of debts and return of ships, Debtor has allocated some KRW 92,000,000,000 as bad debt reserves relating to delinquent claims as of Dec. 2010, and Debtor has directly re-allocated these ships in the spot market (long-term demise charterparties not possible, operating in the short-term market), resulting in a deterioration of Debtor's business cashflow with the passage of time, a significant cause of which was the difference between the charter rates and the spot market rates.

3. Increase in equity burden due to newbuilding ~~vessels~~ procurement and increase of principal repayment obligations due to additional liquidity

In anticipation of the booming conditions in the shipping market, Debtor had replaced the older ships which were allocated to long-term contracts of affreightment with

major consignors, for increasing profits, and for the purpose of stabilizing business by diversification of business structure in respect of its dry bulk business, Debtor had invested in oil tanker business. After the financial crisis of 2008, due to deterioration in the conditions relating to the ship financing market, Debtor's equity burden had increased, and in order to allocate for losses incurred in the time charterparty/demise-charterparty business, Debtor had procured some KRW 220,000,000,000 by engaging in asset disposals, bonds issuance, capital increase with consideration, asset securitization, etc. Through such efforts, the operating interest relating to loans had increased rapidly, resulting in pressures to Debtor's business.

4. Continuing deterioration of cash flow

According to Debtor's cashflow statement for 2008, 2008 1st quarter cash was KRW 150,500,000,000 billion, and due to the booming ship market, as of August 2008 cash stood at KRW 236,600,000,000, maintaining stable business conditions overall.

However, due to the global financial crisis as explained above, the resulting decrease in revenues and sudden foreign exchange changes, Debtor's cashflow continued to deteriorate, and as of Dec. 2008 it had decreased to KRW 144,500,000,000, continuing the decreasing trend (Jan. 1, 2009 to Dec. 31, 2010, some KRW 220,000,000,000 of liquidity had been procured), standing at KRW 133,000,000,000 as of Dec. 2010.

5. Cause for commencement of rehabilitation proceedings

As of the date of this petition, Debtor's assets are in fact in excess of its liabilities according to its financial statements, but as of Dec. 31, 2010 its short-long term borrowings from financial institutions are KRW 395,881,000,000, and if including ABS loans totaling KRW 100,000,000,000, the commercial debts total KRW 112,902,000,000 [Exhibit 28 Status of Loans from Financial Institutions, Exhibit 29 Status of Loans from ABS Financial Institutions, Exhibit 30-1 List of Major Debts of 1 billion Won or greater, Exhibit 30-2 Statement of Debts].

As mentioned above, after mid-Nov 2010, due to the significant drop in BDI, contrary to expectations, and with the exception of fixed freight income from long-term contracts of affreightment such as with POSCO, etc., Debtor's charter hires had decreased dramatically, with the ships continuing to generate losses from continued operations. Due to the insolvencies of customers, Debtor is unable to obtain normal satisfaction of its outstanding claims. In such circumstances, unless special management measures are undertaken, it can only be anticipated that Debtor's losses will snowball, and with the current cashflow, Debtor is in a liquidity crisis where it will be unable to adequately meet the repayment of debts and charter hire payments occurring after Feb. 2011.

Therefore, unless special circumstances warrant otherwise, Debtor should qualify Article 34(1) of the Debtor Rehabilitation and Bankruptcy Act, which provides that "if Debtor finds it impossible to repay his/her obligations in the repayment period without any serious hindrance to the continuation of the business or it is feared that bankruptcy may accrue to Debtor."

VII. Necessity for Rehabilitation of Debtor

1. Debtor's liquidity crisis caused by decrease in BDI and resulting sudden

Increase in delinquent claims relating to charterparty customers.

Upon incorporation in 1968, Debtor has only engaged in the ocean shipping line business, and from 1976 beginning with execution of long-term contracts of affreightment with POSCO for transport of iron ore, Debtor continuously expanded in the chartering business with such parties as Korea Gas Corporation, Korea Electric Power Co., Ltd. and Glovis Co., Ltd. Currently, Debtor is ranked 4th in domestic general shipping business and 2nd in bulk shipping business, taking steps to expand as a major shipping company.

Debtor, until the recent financial crisis, on the heels of its chartering business in respect of the long-term contracts of affreightment with major domestic consignors, had expanded at an astonishing pace by engaging in transport of iron ore, coal, grain commodities, sugar, etc. on behalf of such companies as Cargill, Mitsubishi Corporation, Marubeni Corporation, Glencore, Shagang Shipping, China Steel, Corus UK, etc. and had continually generated business profits.

However, the BDI index which has a direct impact on the business of Debtor, went from a level of 11,793 as of May 2008 and deteriorated to 800 as of Jan. 2009, and upon fluctuating suddenly decreased after Nov. 2010, contrary to expectations. This was a major cause of Debtor's business deterioration. Such decrease in shipping rates had brought about management crisis for shipping businesses globally, and many domestic and overseas shipping companies filed for bankruptcy or rehabilitation proceedings as a result, declaring default.

Among customers who had chartered ships from Debtor on a long-term basis, a significant number were unable to pay hires under the demise charterparties or had returned the ships, resulting in defaults. As a result, Debtor experienced a deterioration of its time charterparty/demise charterparty business due to the increase in delinquent claims and early return of ships.

However, the fact that the BDI, which was recovering after Jan. 2009 as mentioned above, had again started to decrease after Nov. 2011, evidences the prevailing unrealistic anxieties of the global financial crisis not yet running its course and the temporary environment characterized by the continuous supply of ships. But with anticipations of recovery after correcting for a limited period of time, Debtor should be able to improve its financial position.

In addition, by setting aside charterparty contracts which continue to produce losses and terminating such charterparty contracts and returning the chartered ships, Debtor should be able to improve its financial position rapidly and repay its debts without significant effort.

2. Preserving Debtor's profit-generating businesses

Debtor has allocated a total of 20 vessels in respect of long-term contracts of affreightment of between 15 and 25 years, with major consigning companies as POSCO, Korea Gas Corporation, Korea Electric Power Co., Ltd. and Glovis Co., Ltd. (Hyundai Steel Company affiliate), and transport raw materials essential to core national industries such as iron ore, coal, liquefied natural gas, etc., anticipated to generate some KRW 520,000,000,000 in revenues. [Exhibit 16 Status of Long-Term Contracts of Affreightment]. In particular, as Debtor has maintained continuous contractual relationships with the above-mentioned companies for a significant period of time (as long as 35 years in some cases), if such contracts continue to be faithfully performed, unless special circumstances warrant otherwise, even upon their expiry, it is anticipated that contracts for replacement vessels will be renewed by mutual agreement of the parties.

However, if the order for rehabilitation of commencement is not rendered in respect to Debtor, and Debtor is unable to overcome the current crisis, resulting in bankruptcy, then the aforementioned long-term contracts of affreightment will be terminated, and the related revenues and profits will all be lost.

3. Impact on Debtor's officers/employees and customers

If the commencement order for rehabilitation is not rendered and Debtor becomes bankrupt, the 800 officers and employees who rely solely on Debtor (including 441 shipping personnel and BBC personnel) will lose their livelihoods. In addition, since Debtor's main commercial creditors comprise some 20 companies, there is a worry of continuous bankruptcies for these creditors following Debtor's bankruptcy, which may result in a significant loss of credit to Korean shipping companies, weakening the domestic shipping market.

VIII. Future Survival and Business Strategy of Debtor

1. Improvement of profitability of time charterparty/demise-charterparty vessels

One of the main causes of Debtor's financial deterioration is the collapse of the time charterparty/demise-charterparty business due to the sudden collapse of the shipping market as described above. With respect to vessels which were chartered by Debtor from shipowners and then demise-chartered by Debtor, Debtor was obligated for payment of high charter rates determined in the past, while other companies which had entered into demise-charterparties with Debtor had terminated their charterparty contracts and returned the ships to Debtor. As a result, Debtor had no choice but to re-charter such ships at current low charter rates or at low spot rates, producing significant losses.

Upon commencement of rehabilitation, Debtor intends to re-negotiate the hire rates or terminate the time charterparty contracts in respect of the vessels relating to its time charterparty/demise charterparty business which produced Debtor's liquidity crisis, improving its liquidity position.

2. Maximization of dedicated fleet operations

Since its establishment in 1968, Debtor has been a main force in the transport of core national industrial materials such as iron ore, coal, liquefied natural gas, and is the first shipping company specializing as a special cargo business (Debtor is responsible for some 30% of POSCO's total import volume, and until 2000 had comprised of 50% of total revenues of Debtor). However, in contrast with competing hire rates in respect to general market conditions, in special cargo business the consignor guarantees hire rates which cover total operating expenses and a fixed rate of return, what is known as cost-recover method. As such, Debtor's operations should generate a stable return.

Further, since being the first to enter into special cargo business in 1976, Debtor has accumulated much business know-how for the past 35 years, and such know-how provides Debtor with differentiated expertise which cannot be acquired in a short period of time. Thus, if the current instability caused by the time charterparty/demise-charterparty business is eliminated, Debtor will be able to generate normal cashflows through maximization of freight volumes.

3. Purchase of vessels owned by Korea Line Singapore

Debtor had established a subsidiary in Singapore, a hub for oil tanker business and a shipping cluster, in order to diversify and expand into the oil tanker sector and to focus on

such business. Debtor has 7 vessels currently owned by the Singapore subsidiary and 1 vessel currently under construction. At the time of financing the purchase price of these vessels, Debtor had issued guarantees on behalf of the subsidiary in respect of loan financing, and if Debtor were to file for rehabilitation, the loan agreements automatically declare defaults thereunder, and Debtor is obligated to purchase the vessels.

Currently, Debtor time charters these vessels and has demise chartered the vessels to superior operators for periods of between 3 and 7 years, generating continuous profits. Debtor intends to purchase the vessels and by maintaining the demise charterparties, generate profits for the purpose of early normalization of its business.

IX. Enterprise Value of Debtor's Rehabilitation

1. Calculation of liquidation value

(a) Calculation method for liquidation value

Debtor's assets as set forth in its books as of Dec. 31, 2010 equal KRW 2,870,083,000,000. In respect of this amount, the liquidation value has been calculated as follows:

- (1) Total of cash and cash equivalents excluding small amounts is comprised of demand deposits with financial institutions, and since total amount may be withdrawn, it was not adjusted.
- (2) Total short term financial instruments comprised of certificates of deposit with financial institutions, and total amount of KRW 2,500,000,000 are pledged as security for financial institution loans, thus reduced as advance set-off claims
- (3) Out of trade receivables, claims of KRW 91,793,000,000 deemed difficult to recover due to customers' insolvencies, business closures, defaults, etc. were directly reduced, out of balance of claims 30% of book value equal to KRW 52,199,000,000 was reduced, considering recoverability.
- (4) Accounts receivables are mostly comprised of lease payments from lessees of Debtor's building property, and considering prior liens of lease deposits and recoverability at liquidation, 5% of book value equal to KRW 3,000,000 was reduced.
- (5) Total accrued receivables are comprised of deposits, savings interest with financial institutions by period, and since total amount should be recoverable, it was not adjusted.
- (6) Advance payments are mostly comprised of share purchase rights partially given in the form loans to Debtor's employee stock ownership program, thus at each payment date it is repaid in installments. Since it can be set-off against wage claims, 5% of book value equal to KRW 650,000 was reduced.
- (7) Advance expenses are mostly comprised of charter hires, shipping costs, fuel costs, LNG and interest expense, etc. and realistically may not be recoverable upon liquidation of Debtor, so entire amount of KRW 101,991,000,000 was reduced. However, out of advance expenses relating to shipping maintenance costs which should be borne by

shipowners in relation to ships which are chartered by Debtor (Owner's Account), such amounts have been paid by Debtor in the amount of KRW 16,301,000,000, and since this amount should be set-off against the charter hires payable to the shipowners, no adjustments were applied.

- (8) For advance corporate taxes and value added taxes, withholding tax on Debtor's interest income and value added tax on goods and services, entire amount should be recoverable from relevant countries, so no adjustments were made.
- (9) Other current assets for ship operating expenses, etc. such as advance payments or among agent advance payments such as non-paid amounts or non-settled amounts, considering agent's credit or expense settlement plan or recoverability of balance amount, 50% of book value in the amount of KRW 3,902,000,000 was reduced, and for marine accident costs total amount of KRW 762,000,000 was reduced.
- (10) Stored supplies comprise of mostly unused fuels for operation of vessels, and considering market rates and disposal costs, 30% of book value equal to KRW 13,269,000,000 was reduced.
- (11) Total long-term financial products are comprised of savings deposits with financial institutions, and only the deposit for account checking opening in the amount of KRW 16,000,000 was reduced as advance set-off claim.
- (12) Marketable securities are comprised of acquisition cost for public and non-public securities. Among these, price of public securities (Hana Financial Holding) are allocated according to securities market price, while price of non-public securities are allocated according to acquisition cost. The total investment amount of KRW 2,598,000,000 in Debtor's subsidiaries (Daehan FA System, Korea Sunmoo, Korea Ship Industries, Overseas Ships) and in invested companies which are generating losses (Shinil Metalworks, Incheon Cold Plaza, Korea Shipowners' Mutual Federation) was reduced, considering its recoverability at liquidation.
- (13) As to maturing securities, comprised of subordinated bonds in the form of fund investment, 70% of book value equal to KRW 1,260,000,000 was reduced, considering recoverability at liquidation.
- (14) As to shares of shareholding investments, Debtor's total paid-in capital of KRW 26,528,000,000 for the two subsidiaries (Kwangyang Shipping, Korea Line Singapore Pte., Ltd.) was reduced, and with respect to the paid-in capital for two joint venture companies established with Daewoo Shipbuilding & Marine Engineering Co., Ltd. (DLS Maritime S.A. and KLDS Maritime S.A.), 70% of book value equal to KRW 67,129,000,000 was reduced, considering the invested companies' financial status and recoverability at liquidation.
- (15) As to long-term loans, total amount of KRW 64,649,000,000 loaned to its subsidiary Korea Line Singapore Pte. Ltd. was reduced, and for the loan made to newbuilding joint venture company KLMC Maritime S.A., 70% of book value equal to KRW 5,330,000,000 was reduced, considering recoverability at liquidation upon contract termination.

- (16) Value of land (including investment property) was based on individual appraised values, buildings (investment property included) based on market standard value for purposes of determining property tax, and thus land was reduced by KRW 11,423,000,000 billion Won, buildings by KRW 9,319,000,000, investment property is KRW 601,000,000.
- (17) Since vessels are not owned by Debtor, entire amount of KRW 1,837,835,000,000 was reduced.
- (18) For vehicle delivery equipment, KRW 13,000,000 was increased, based on used market values.
- (19) For equipments, upon liquidation 80% of book value equal to KRW 807,000,000 was reduced, considering residual value at liquidation.
- (20) For purchase price of ships which are under construction, total amount of KRW 221,881,000,000 was reduced, considering recoverability at liquidation in respect of termination of contracts.
- (21) For deposits, golf memberships, other than the total amount refunded for Rainbow Country Club, 40% of book value equal to KRW 1,465,000,000 was reduced, considering current market values, advance chare hire deposit amount for Tiger United S.A., total amount of KRW 42,363,000,000 was reduced, considering recoverability at liquidation in respect of termination contract. The ABS repayment deposit amount of KRW 10,778,000,000 has been deposited in a trust account on behalf of ABS creditors with the Korea Development Bank, and its return is not possible so entire amount was reduced. However, KRW 55,000,000 of telephone deposit is refundable, so it was not adjusted.

(b) Results of liquidation value calculation

Liquidation value of Debtor based on the foregoing liquidation calculation is KRW 319,419,000,000 [Exhibit 31 Table of Liquidation Value Calculation]

2. Calculation of going concern enterprise value

(a) Method for calculation of going concern enterprise value

The going concern enterprise value of Debtor is based on assumption of continuing normal operation of the business, with anticipated net business cashflow from continued operation, discounted by an appropriate rate, and it is comprised of aggregate of (i) value from estimated 11 years of operations including reserve year and (ii) value generated after estimated period through operations. No non-business assets for disposal are assumed. The calculation is as follows.

- (1) For some vessels, if charterhires cannot be adjusted, it is intended that the charterparty contracts will be terminated, and this has been reflected into the operating profit/loss figures. For vessels to be disposed of after acquisition through BBCHP and for vessels to be acquired through shipbuilding contracts, such vessels have also been reflected into the operating profit/loss figures. For vessels in relation to which hire rates will be adjusted, a list will be submitted at a later time.

- (2) Shipping revenue was estimated by referencing the daily time charter rates for types of vessels, reflecting BDI fluctuation rate.
- (3) Calculated in consideration of past operating costs including ordinary operating expenses which correspond to shipping revenues.
- (4) Pursuant to Article 14(10) of Special Limitation on Income Tax Act (Special calculation standards for corporate income tax on shipping businesses), tonnage tax was selected for corporate income tax calculation purposes. (In reality, no corporate income tax will be incurred for 11 years due to huge tax losses incurred in 2009 and 2010.)
- (5) There are currently 19 existing BBCHPs, along with 5 BBCs which are similar in structure, and while in principle these agreements will be performed, the current plan is that certain of the agreements will be terminated and the corresponding vessels purchased and then disposed of. As performance of these agreements will require repayment of ship finance loan principal amounts (in the case of early termination, payment up to termination date), such amounts have been reflected into the cashflow as capital expenditure.
- (6) However, as to vessels acquired through the foregoing means, 10 of the vessels are planned for disposal, and the sale proceeds have been reflected into the cashflow.

(Unit: US\$1,000)

No.	Vessel Name	Est. Sale Date	Est. Sale Price	Net Cash	Remarks
1	Silver Bell	End of Dec. 2014	12,459	12,459	Disposal at expiry of BBC
2	Golden Bell	End of March 2013	14,389	14,389	Disposal at expiry of BBC
3	Marygold	End of Sept. 2012	15,640	15,640	Disposal at expiry of BBC
4	Camelia	End of Sept. 2013	14,389	14,389	Disposal at expiry of BBC
5	Anemone	End of March 2012	12,880	12,880	Disposal at expiry of BBC
6	Begonia	End of March 2011	50,000	25,000	Early disposal (BBCHP)
7	Cosmos	Aug. 1, 2018	15,620	15,620	Disposal at expiry (BBCHP)
8	Goonjaran	Feb. 15, 2015	14,328	9,761	Early disposal (BBCHP)
9	Bluebell	Feb. 15, 2015	17,910	16,602	Early disposal (BBCHP)
10	DL Calla	Feb. 1, 2016	16,477	16,477	Disposal at expiry (BBCHP)
Total			184,092	153,217	

- (7) Based on analysis of past financial position, considering the nature of the Debtor's business, it has been assumed that working capital will take up some 10% of revenues.
- (8) Average foreign exchange rate (per US\$1) for the estimated period is assumed to be KRW 1,100 for 2011, KRW 1050 for 2012, KRW 1,000 for 2013 and beyond.
- (9) Present value discount rate was assumed based on risk free 3 year government bond yield of 3.38% (as of Dec. 31, 2010) plus risk premium of 6.5%, for a discount rate of 9.88%.
- (10) Residual business value was calculated assuming fixed growth rate of 0% for the period after estimated period.

(b) Going concern enterprise value calculation results

Debtor's net cashflow (operating activities) during estimated period is calculated as [after tax operating income + depreciation – BBCHP loan principal – newbuilding purchase price + vessel sale price – capital expenditures other than vessels + increase in net working capital]. Present value of the net operating cashflow as calculated above is KRW 837,679,000,000 as set forth in the following table [Exhibit 32 Estimated Profit/Loss Statement, etc., Exhibit 33 Table of Going Concern Enterprise Value Calculation].

(Unit: 1 million Won)

Category	2011	2012	2013	2014	2015	2016
Net cashflow	45,955	28,181	171,543	205,742	207,371	166,985
Current value	41,823	23,341	129,306	141,140	129,466	94,878
Category	2017	2018	2019	2020	2021	Total
Net cashflow	160,676	162,985	107,588	96,132	96,953	1,450,112
Current value	83,085	76,700	46,078	37,470	34,392	837,679

If assuming that cashflow for the final year of estimated period will continue in perpetuity, perpetuity growth rate of 0% assumed, KRW 348,095,000 was calculated as residual enterprise value.

Therefore, Debtor's going concern enterprise value is aggregate of present value of business cashflow during estimated period and residual enterprise value, for a total of KRW 1,185,774,000,000.

(c) Comparison between liquidation value and going concern enterprise value

As of the date of this petition, Debtor's liquidation value is KRW 391,419,000,000, while Debtor's going concern enterprise value is (conservatively) KRW 1,185,774,000,000. Thus, it is clear that there is economic value in Debtor's rehabilitation.

3. Statement of Funds Receipt Disbursement

(a) Plan for repayment of debts

Based on the above cashflow, assuming 2011 as reserve year, the following is Debtor's repayment plan during the rehabilitation period of 10 years from 2012 through 2021.

(1) Rehabilitation secured claims (financial institution loans)

(i) Repayment of total of principal and interest prior to commencement, repayment in equal installments during 1st year (2012) and 2nd year (2013);

(ii) interest after commencement, repayment at 6% per annum

(2) Rehabilitation claims (loan debts)

(i) Principal and interest prior to commencement, 5% waiver and 95% repayment, from 2nd year (2013) through 6th year (2027), repayment of 20% of each year's repayment amount;

(ii) Waiver of interest after commencement

(3) Rehabilitation claims (commercial debts)

- (i) Repayment of 100% of principal and interest prior to commencement, from 1st year (2012) through 3rd year (2014), in equal installments;
 - (ii) Waiver of interest after commencement
- (4) Rehabilitation claims (stipulated loss)
 - (i) 20% of principal and interest waived, 80% repayment, from 3rd year (2014) through 10th year (2021), repayment of 8%, 12%, 12%, 12%, 16%, 16%, 16%, 8%, respectively;
 - (ii) Waiver of interest after commencement
- (5) Public claims (ABS loans)⁵

100% of principal and agreed interest to be repaid, from reserve year (2011) through 4th year (2015), repayment of principal and interest in equal installments according to initial terms of issuance (loan interest is reflected in the operating cashflow as ordinary management expense).

(b) Funds disbursement and receipts statement

Pursuant to the foregoing repayment plan, the funds disbursement and receipt schedule and creditor debt repayment schedule is as set forth in the [Exhibit 34 Statement of Estimated Cash Receipts Disbursement Calculation]. While estimated funds disbursement and receipt calculation statement is based on the business plan proposed for calculation of going concern enterprise value and debt repayment plan, since no corporate income tax will be payable due to loss carryforward, tonnage tax application will be cancelled and there should be no corporate income tax applicable during the rehabilitation period.

(c) Liquidation distribution amount and current repayment amount

(1) Liquidation distribution amount

If Debtor is liquidated, out of the aforementioned liquidation value of KRW 391,419,000,000, creditors will be entitled to KRW 386,338,000,000 which is determined by subtracting from liquidation value bankruptcy trustee's fees of KRW 100,000,000 and employee severance reserves of KRW 4,981,000,000. The remaining liquidation value is some 24.2% of total outstanding claims of KRW 1,594,733,000,000, and will be distributable by creditor class as follows.

(Unit: 1 million Won)

Creditor Class	Total Claim	Liquidation Distribution Amount			Ratio
		Secured asset disposal proceeds	Other asset disposal proceeds	Total	
Rehabilitation secured claims	30,000	26,965	696	27,661	92.2%

⁵ ABS loan amount is not a public claim, but was for convenience included in the calculation of proceeds of disposed receivable claims, and categorized as payment of public claim.

(loan debts of financial institutions)					
Rehabilitation claims (loan debts)	346,770	0	79,488	79,488	22.9%
Rehabilitation claims (commercial claims)	112,903	0	25,880	25,880	22.9%
Rehabilitation claims (stipulated loss value)	1,005,060	0	230,385	230,385	22.9%
Public claims (ABS loan debts) ⁶	100,000	0	22,923	22,923	22.9%
Total	1,594,733	26,965	359,372	386,337	24.2%

4. Present value of repayment amount

If repayment occurs in accordance with the proposed repayment plan, and repayment amount is discounted at 5.05% per annum (average rate for new corporate loans by deposit banks), present value is as follows.

(Unit: Won)

Creditor Class	Claim Amount	Repayment Amount		Repayment Ratio	
		Amount	Present Value	Amount	Present Value
Rehabilitation secured claims (loan debts of financial institutions)	30,000	34,500	30,651	115.0%	102.2%
Rehabilitation claims (loan debts)	346,770	329,432	258,131	95.0%	74.4%
Rehabilitation claims (commercial debts)	112,903	112,903	97,470	100.0%	86.3%
Rehabilitation claims (stipulated loss value)	1,005,060	804,048	553,707	80.0%	55.1%
Public claims (ABS loan debts)	100,000	100,000	86,470	100.0%	86.5%
Total	1,594,733	1,380,883	1,026,429	86.6%	64.4%

5. Comparison between distribution ratio and repayment ratio

Distribution ratios upon liquidation and repayment ratios in the case of rehabilitation in respect of creditors are as follows.

⁶ ABS creditors categorized as public claims creditors are not in fact public claims creditors, only purchasers of future receivables claims; at liquidation, will not have preferred repayment rights, but distributed equally with other rehabilitation creditors.

Creditor Class	Present Value Repayment Ratio	Liquidation Ratio	Difference
Rehabilitation secured claims (loan debts of financial institutions)	102.17%	92.20%	9.97%
Rehabilitation claims (loan debts)	74.44%	22.92%	51.52%
Rehabilitation claims (commercial claims)	86.33%	22.92%	63.41%
Rehabilitation claims (stipulated loss value)	55.09%	22.92%	32.17%
Public claims (ABS loan debts)	86.47%	22.92%	63.55%
Total	64.36%	24.23%	40.14%

X. Conclusion

As discussed above, Debtor's cashflow has deteriorated and is in a liquidity crisis due to loan repayment obligations to financial institutions and its inability to procure sufficient funds. Therefore, Debtor may be deemed "impossible to repay his/her obligations in the repayment period without any serious hindrance to the continuation of the business" as stipulated under Article 34(1) of the Debtor Rehabilitation and Bankruptcy Act. Thus, a cause exists for commencement of rehabilitation of Debtor, and in addition due to the economic value in rehabilitation of Debtor, there is a significant need for commencing rehabilitation proceedings in respect to Debtor. Debtor hereby petitions for the commencement of rehabilitation in respect to the company.

Method of Summons

- | | | |
|----|-----------------|---|
| 1. | Exhibit 1 | Commercial Registry Extracts |
| 1. | Exhibit 2 | Articles of Incorporation |
| 1. | Exhibit 3 | Company Introduction Materials |
| 1. | Exhibit 4 | Quarterly Financial Report (#44) |
| 1. | Exhibit 5 | Business Registration Certificate |
| 1. | Exhibit 6 | Details of 26 th Public Exchange Bonds Exchange Request |
| 1. | Exhibit 7 | Details of Share Ownership of 1% or greater |
| 1. | Exhibit 8 (1-6) | Curriculum Vitae of Each Director |
| 1. | Exhibit 9 | List of Directors and Employees |
| 1. | Exhibit 10 | Current Personnel Statement as of Dec. 31, 2010 |
| 1. | Exhibit 11 | Current Status of Shareholding Structure of KLC Group |
| 1. | Exhibit 12 | List of Domestic Litigation |
| 1. | Exhibit 13 | List of Overseas Litigation |
| 1. | Exhibit 14 | Rules on Labor Management Committee |
| 1. | Exhibit 15 | Rules on Land Employment |
| 1. | Exhibit 16 | Status of Long-Term Contracts of Affreightment |
| 1. | Exhibit 17 | List of Major Customers |
| 1. | Exhibit 18 | Vessel Registration Certificates |
| 1. | Exhibit 19 | K.ACACIA BBCHP |
| 1. | Exhibit 20 | Current Status of Outstanding Loans In Relation to Each Financial Institutions for KLC-BBCHP Vessel |
| 1. | Exhibit 21 | Outstanding Loan Amount to Financial Institutions for KLS- |

		Vessel Financing 1.	Exhibit 22	Status	of
		Charterparty/Demise Charterparty Contracts			
1.	Exhibit 23 (1-3)	Audit Reports			
1.	Exhibit 24	Comparative Financial Position Statement			
1.	Exhibit 25	Comparative Profit-Loss Statement			
1.	Exhibit 26	Status of KLC Newbuilding			
1.	Exhibit 27	Recent Trend in BDI Index			
1.	Exhibit 28	Status of Loans from Financial Institutions			
1.	Exhibit 29	Status of Loans from ABS Financial Institutions			
1.	Exhibit 30-1	List of Major Debts of 1 billion Won or greater			
1.	Exhibit 30-2	Statement of Debts			
1.	Exhibit 31	Table of Liquidation Value Calculation			
1.	Exhibit 32	Estimated Profit/Loss Statement, etc.			
1.	Exhibit 33	Table of Going Concern Enterprise Value Calculation			
1.	Exhibit 34	Statement of Estimated Cash Receipt Disbursements Calculation			
1.	Exhibit 35	Minutes of Board Resolution			

Attached Documents

- 1. Each Exhibit
- 1. Power of Attorney and Appointment of Attorneys-at-Law (1 each)

January 25, 2011

Petitioner's and Debtor's

Agents

Lee & Ko

Jae Hoon Kim, Attorney-at-Law

Won Shik Lee, Attorney-at-Law

Tae Soo Jung, Attorney-at-Law

Jung Hyun Lee, Attorney-at-Law

Seok Pyo Hong, Attorney-at-Law

